

Parker-Davis Project

Informal Rate Meeting

June 28, 2012





Meeting Agenda

- Overview of Parker-Davis Project (P-DP)
Rate Methodology
- Ratemaking Assumptions
- Rate Determinants
- Proposed FY 2013 Service Rates
- Long-Term Rate Challenges/Response
- Next Steps and Questions



Rate Methodology

- Service rates are calculated annually for a future five year cost evaluation period (rate window)
- When possible, revenues and costs are directly assigned to generation or transmission revenue requirements
- All other revenues and costs are allocated to generation or transmission revenue requirements
- Excess revenue from prior periods (carryover) is applied to reduce the revenue requirements



Standard Ratemaking Assumptions

- Actual work plans are used for O&M expenses when available. Work plans are escalated for inflation in remaining years of cost evaluation period.
- Ten-Year Plan information from Western and the Bureau of Reclamation is used to project capital costs
- Transmission and generation service reservations are based on contractual data



Purchase Power

- Generation: At the AOP meeting, \$5.2 million in purchases were projected for FY13. Based on the latest information, that amount is now \$4.3 million. Purchases of \$500,000 will be used for the out-years.
- Transmission: Balancing Authority purchases necessary to support transmission for FY13 are estimated at \$1.4 million
- Purchase estimates are updated frequently so we will monitor and update the rates if appropriate



Multi-Project Costs/Revenue

- P-DP receives revenues from the other DSW power systems for their share of the SCADA and Phoenix Service Center investments
- Similarly, P-DP transfers revenues to Intertie for Mead Service Center costs
- Due to changes in accounting treatment, Multi-Project Revenues will now be treated as “negative expenses” and netted with Multi-Project Costs in rate calculations
- This is a one-for-one reduction in other revenues and expenses so it is not rate impacting



Increased Principal and Interest

- We are experiencing increased principal and interest (P&I) payments from new investment entering repayment status
- Typically we average \$10 million per year in new transmission investment
- In fiscal years 2010 and 2011, we had a total of \$74.7 million in new investment
- Increase in 2010 and 2011 is due to several moderate sized investments entering repayment status simultaneously, not a significant increase in spending



Transmission Rate Determinants

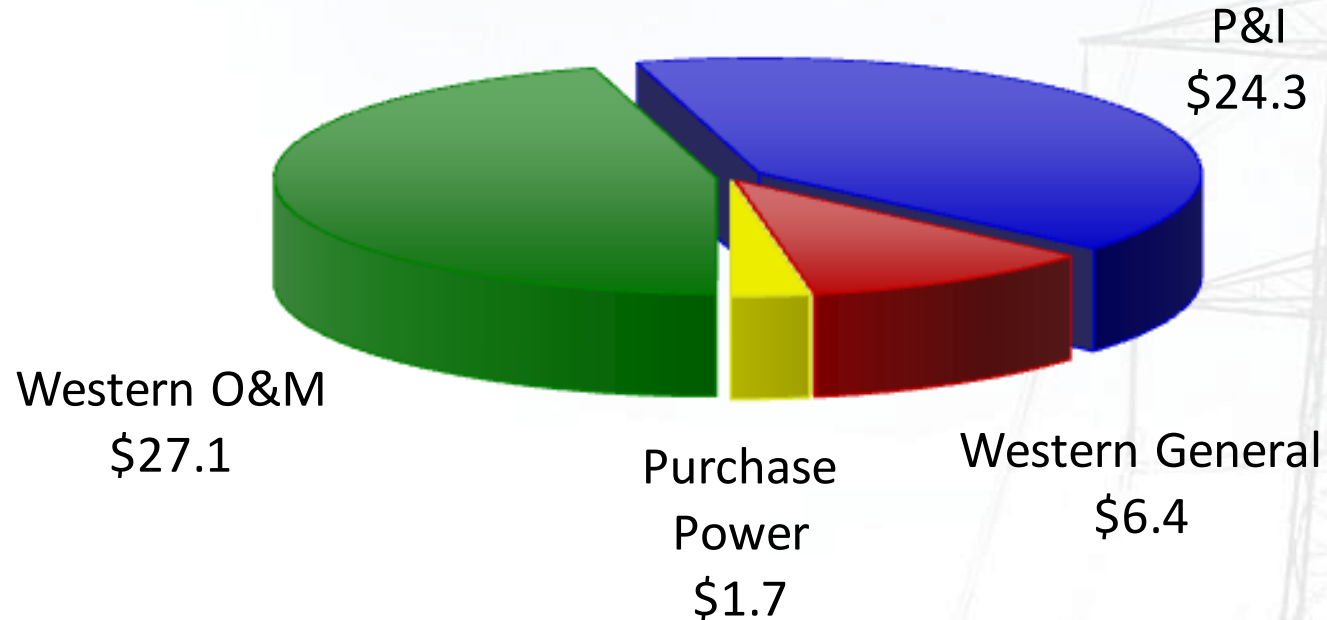
Average Annual Expenses (in millions)

	FY12-16	FY13-17	Change
Western O&M	\$26.6	\$27.1	\$ 0.5
Western General	\$ 5.9	\$ 6.4	\$ 0.5
CME & Multi-Project	\$ 1.2	\$ (1.0)	\$ (2.2)
Purchase Power/Wheeling	\$ 0.9	\$ 1.7	\$ 0.8
P&I	\$21.0	\$24.3	\$ 3.3
Total	\$55.6	\$58.5	\$ 2.9



Transmission Rate Determinants

Average Annual Expenses (in millions)



Total: \$59.5 million (Excluding -\$1 million of CME & Multi)



Transmission Rate Determinants

Average Annual Other Revenue, Carryover and Reservations (\$ in millions)

	FY12-16	FY13-17	Change
Other Revenue	\$ 9.9	\$ 7.6	\$ (2.3)
Carryover	\$ 6.0	\$ 4.7	\$ (1.3)
Total	\$ 15.9	\$ 12.3	\$ (3.6)

Reservations (MW)	3,066	3,062	(4)
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Generation Rate Determinants

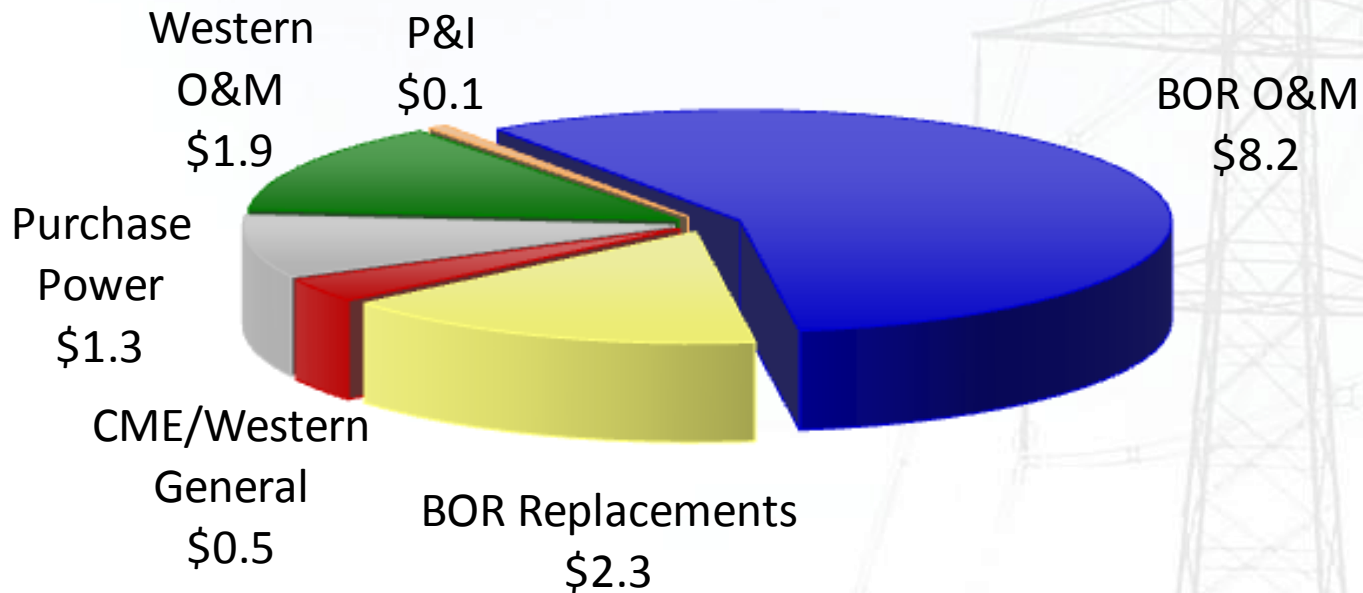
Average Annual Expenses (in millions)

	FY12–16	FY13–17	Change
Western O&M	\$ 2.0	\$ 1.9	\$ (0.1)
BOR O&M	\$ 8.0	\$ 8.2	\$ 0.2
Purchase Power	\$ 1.3	\$ 1.3	-
CME & Western General	\$ 0.5	\$ 0.5	-
BOR Replacements	\$ 2.8	\$ 2.3	\$ (0.5)
P&I	\$ 0.1	\$ 0.1	-
Total	\$14.7	\$14.3	\$ (0.4)



Generation Rate Determinants

Average Annual Expenses (in millions)



Total: \$14.3 million



Generation Rate Determinants

Average Annual Other Revenue, Carryover and Reservations (\$ in millions)

	FY12-16	FY13-17	Change
Other Revenue	\$ 0.2	\$ 0.2	-
Carryover	\$ 2.5	\$ 1.3	\$ (1.2)
Total	\$ 2.7	\$ 1.5	\$ (1.2)

Reservations (GWh)	1,425	1,425	-
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Fiscal Year 2013 Rates

	Current (FY12)	Proposed (FY13)	Change	
Firm Transmission (kW-Month)	\$1.08	\$1.26	\$0.18	16.7%
Energy (mills/kWh)	4.24	4.52	0.28	6.6%
Capacity (kW-Month)	\$1.86	\$1.98	\$0.12	6.5%
Firm Power Composite w/o Transmission (mills/kWh)	8.48	9.04	0.56	6.6%



Long-Term Rate Challenges

- The rebuilding of our aging transmission system will result in higher P&I payments and continue to cause upward pressure on the rates
- As carryover further diminishes, it reduces our ability to mitigate rate volatility from variability in annual costs
- Although the overall level of firm transmission sales has remained fairly constant, short-term reductions in sales can affect carryover increasing rate volatility



Long-Term Rate Challenges

- Existing Compound Interest Amortization (CIA) rate methodology developed in mid-1990's
- CIA uses a mortgage style repayment of even P&I payments throughout the service life of an investment. CIA also included the use of carryover.
- Eliminated the rate volatility that was occurring under the balloon payment methodology and works well for a mature power system with stable costs
- Not as effective at maintaining low rates with increasing capital costs and highly variable costs such as purchase power



Response to Rate Challenges

- Need to consider and evaluate refinements to the CIA rate methodology
- Refinements need to address current challenges and maintain enough flexibility for unforeseen future issues
- Broad based approach that will explore elements of the rate methodology such as amortization methods, length of rate window, timing of capital payments, timing of new investment and carryover



Response to Rate Challenges

- Refinements will be evaluated on the ability to stabilize rates and moderate future rate increases while still ensuring project repayment
- Potential refinements will be developed, tested and presented in collaborative work-group style meetings later this year and early next
- Your participation, input and ideas are key to a successful outcome



Next Steps

- Information regarding the P-DP rates to be posted on Western's website:

<http://www.wapa.gov/dsw/pwrmt/RateAdjust/Main.htm>

- Advancement of Funds Funding Board - 7/19/2012
- Proposed rates will be finalized in July/August and become effective for the October 2012 service month
- Follow-on meetings later this year and early next to collaborate on changes to rate methodology



Questions/Comments

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